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U.S. Assistance in Egypt

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I want to thank both Chairs for inviting me to testify at this hearing. I appreciate this opportunity to share with you progress in our economic assistance program in Egypt and to speak today about how the U.S. Agency for International Development (USAID) is helping the people of Egypt improve their economic circumstances, health and education and live in a thriving democracy. In today's testimony, I will describe the challenges facing Egypt and highlight how U.S. foreign assistance programs have contributed, and will continue to contribute, to the achievement of U.S. foreign policy goals in the country and to the improvement of the lives of the people of Egypt.

For nearly three decades, the United States and Egypt have collaborated closely in economic development and regional stability, and in recent years have worked together on political reform. Democratization in Egypt and throughout the region, coordination on the Israeli-Palestinian affairs, interest in a strong and open Egyptian economy, and cooperation in countering terrorism are pillars of our relationship. U.S. economic assistance through USAID has totaled almost \$26 billion since 1975, committing the U.S. Government to a significant bilateral assistance program.

With U.S. support in Egypt, as in other countries where we work, citizens are awakening to improved levels of political participation and basic rights that have long been absent. People are beginning to express themselves and their political views more openly and demanding more from their leaders. The United States can take credit for contributing to this outcome, through our solid relationships and through democratic initiatives. Egyptians are increasingly seeking to embrace good governance and free and fair elections without fear of reprisal and the United States will support them in this aspiration.

Likewise, on the economic front, since it began its economic reform program, Egypt has made significant progress. In 1975, U.S. foreign assistance represented 2.77% of Egypt's GDP. Today, it accounts for less than 0.25%. Egypt has reduced trade barriers, cut some consumer subsidies and privatized state-owned industries. However, the transition from years of central government rule has been slow and there is more to be done. Corruption, unemployment, poverty and inequitable development remain challenges.

In the early days of the Camp David process, U.S. economic assistance concentrated on the immediate needs of the economy: reopening the Suez Canal, expanding and rehabilitating electric power and telecommunications, improving water and wastewater management and improving grain storage and port facilities. Beginning in the 1980s, USAID broadened its program to address improving agriculture, education and health and rebuilding Egypt's industrial and commercial base. In the 1990s, USAID's program began to focus on macro-economic policy reform and privatization, and added activities aimed at strengthening the systems of governance, improved cost recovery, sustainable utilities, and mitigation of air and water pollution. Since 2000, the United States has increasingly focused on working with the Government of Egypt and the Egyptian people to promote democratization, political openness, and empowerment through further economic liberalization.

What has been achieved with this large assistance program?

Our work has touched the lives of every Egyptian. As a result of our investment:

- Despite the pattern of gains -and- setbacks, the political atmosphere in Egypt has changed. The Egyptian

people are increasingly demanding a say in their own governance, and the Government of Egypt has responded, albeit in a limited fashion. Last year Egypt held its first multi-candidate presidential elections, citizens demonstrated and criticized the government, at times more freely than at any time since independence, more opposition members sit in parliament than ever before, and several new independent newspapers have ferreted out corruption and publicized the initiatives of political reformers. Despite this progress, much remains to be done, and we will intensify our efforts to promote democracy and political reform in Egypt;

- 99% of all Egyptians now have access to reliable electricity and 10.3 million have phones, almost 9.8 million more phone lines than in the early 1980s;
- 22 million Egyptians in 11 governorates have access to clean water and sanitary sewage collection, which helped to reduce infant and child diseases that were often due to unsafe water;
- Infant and child mortality rates have decreased by more than 65% since the late 1970s, with rates for full vaccination increasing to 92% of all children;
- Maternal mortality decreased by 50% in the 1990s and the average Egyptian woman today voluntarily chooses to have approximately 3 children, down from about 6 in the 1980s, resulting in 6 million fewer young Egyptians, a significant statistic in a country with very limited water resources and population densities that can exceed 33,000 per square kilometer in parts of Cairo;
- Domestic food production has increased 119%, which translates as 36% more domestically produced food for each Egyptian;
- Primary school enrollment has increased by 61% in the past 20 years, and the gender gap in enrollment has dropped from 21% in 1979 to 6%; and,
- 90% of all gasoline sold in Egypt is now unleaded and more than 25,000 vehicles have been converted to clean-burning compressed natural gas.

The U.S. foreign assistance program in Egypt contributes to the combined U.S. government and Government of Egypt strategy to counter extremism by creating economic opportunities, giving Egyptians hope about the future and a chance to express their views, and helping the Egyptian government to provide better services to its citizens. For example:

- Small grants to local NGOs help to widen participation in political processes and community development and promote citizenship, tolerance and religious freedom;
- By strengthening civil society oversight of the electoral process, USAID promotes credible, open and competitive political and electoral processes which give more Egyptians a chance to exercise their political rights;
- USAID has been the largest financier of microfinance initiatives in Egypt, estimated to support more than 70% of all activities in this sector. Small and micro enterprises play a significant role in Egypt's economic and social development, making up 98% of non-agriculture private sector enterprises and employing 60 percent of Egypt's labor force; and,
- USAID's substantial education program is helping to change the Egyptian educational system from one that rewards rote memorization and passive knowledge to one that promotes critical thinking skills. These are skills that Egyptian children will need in order to become active participants in democratic and economic opportunities later in life.

Promoting transparency in government operations and openness in society are also cross-cutting themes of our economic assistance program to Egypt. Our programs help to increase transparency by establishing codes of conduct, improving the procedures in government bodies where corruption is likely to occur, and promoting growth of civil society and non-governmental organizations (NGOs) to provide a counter-balance to the strong public sector. Some key examples of progress in this area:

- As a result of USAID support, the Egyptian national budget is now based on the International Monetary Fund (IMF) standard classification system, which should make the budget process more transparent. We are assisting the Ministry of Finance (MOF) to further increase transparency and effectiveness of the national budget through the use of a program budget format, and we intend to improve the transparency of the Government of Egypt's cash management function by implementing a single treasury account;
- Over the past year, USAID improved the transparency of electoral processes in Egypt. Grants totaling \$5.5 were issued to American and Egyptian non-governmental organizations to field international election observers, train 15,000 Egyptian domestic monitors throughout the country, raise political awareness of civil society, and train local journalists to report professionally on election issues;
- USAID's Administration of Justice project has reduced opportunities for corruption by streamlining case processing, case initiation fees, judge assignment, and computerizing the case management process. With the computerization of case initiation procedures at a centralized front counter, the phenomenon of 'judge shopping' was virtually eliminated in the pilot courts;

- The structure of customs tariffs has been simplified (from 27 bands to 6 bands) and actual tariffs lowered on average by more than 30%. As a result, customs agents have less discretion in determining payments owed by importers and thus are less able to negotiate to extract side payments; and,
- In the area of education, USAID is providing direct support to democratically elected school Boards of Trustees, and other Egyptian and U.S. non-governmental organizations to promote popular participation, accountability, and transparency in the oversight, management, and delivery of basic education.

It is important to note that although the U.S. government does not target its assistance to specific religious groups, programs focused on poorer communities have also benefited Coptic Christians - a religious minority in Egypt - through direct grants to Coptic NGOs. The U.S. government has also provided substantial financing to restore sacred Christian antiquity sites of historical and tourist interest. With more than \$2.2 million in grants to 40 Coptic NGOs over the past six years, USAID has helped to strengthen Coptic communities and civil society organizations.

USAID's program has funded several projects that help increase religious tolerance and promote inter-faith understanding between the Muslim and Coptic communities. For example:

- One Egyptian political columnist praised Alam Simsim (the Egyptian version of Sesame Street) for "its critical role in stressing a sense of national unity between Muslims and Christians in Egypt, especially among children;"
- Under our direct grants program, we also expect to support a local Egyptian NGO to establish a Media Monitoring Observatory to track religious tolerance (or lack thereof) in the Egyptian Press;
- Another direct grant will help an Egyptian organization to publish a series of story books with the goal of educating children from ages 6 through 12 about human rights including religious freedom; and,
- Another Egyptian NGO, funded directly by the U.S. government, will encourage community development by empowering community leaders through education, communication, leadership, and skills training, promoting the social and political inclusion of marginalized populations, and directly linking decision-makers with the community. This program reinforces local religious leaders' understanding of the importance of community participation, democratic practices, human rights, and of the potential role of the religious establishment in mobilizing the community to participate in politics and civil society.

USAID's projects in health, education, infrastructure, and civil society development operate in every district with a significant Coptic population, mainly in Upper Egypt and cities such as Cairo and Alexandria. Nearly \$12 million in USAID assistance has supported the restoration of dozens of sacred Coptic sites throughout Egypt, including especially the Hanging Church, Saint George and Father Sergius churches and other sacred sites of Coptic Cairo. USAID's water programs have installed slow sand filter water treatment plants, improved wastewater collection and treatment systems, or rehabilitated and expanded water treatment plants for about 18 villages with significant Coptic populations. Funding allocated to villages with significant Coptic populations under the water treatment programs alone exceeded \$200 million over the last five years.

These are significant achievements that have vastly improved the lives of all Egyptians. Serious challenges remain, however, which must be addressed if Egypt is to remain stable and provide hope for its citizens.

U.S. ASSISTANCE PROGRAM IN EGYPT

The U.S. foreign assistance program is fundamental to achieving the U.S. government's objective to assist Egypt in becoming a democratic, prosperous ally. We are working in several key programs: sustainable economic growth, democratization and the rule of law, agriculture, health, education, environment and infrastructure development.

Over the next five years, U.S. assistance will continue to promote Egyptian financial sector reform, which is moving forward in line with the benchmarks of the U.S.-Egypt Financial Sector Memorandum of Understanding signed in March 2005. USAID will double the number of poor entrepreneurs who receive loans and business training. To boost the economy and create jobs, USAID strengthens financial firms' skills in commercial banking, real estate finance and insurance. Assistance to improve customs regulations and port procedures and increase participation in World Trade Organization and U.S.-Egypt trade programs increases openness to international trade. USAID works with farmers to develop associations, improve skills and expand domestic and international sales. In the information and communication technology field, USAID trains and helps Egyptians form businesses.

With a large youth population, Egypt faces the same challenges as many of its neighbors in preparing the next generation for the work place and to be contributing members of society. The percentage of literate men remains much larger than that of women. USAID has focused its education efforts on developing formal and non-formal

programs for poor communities in seven selected areas. A special emphasis is placed on girls' education and on the transition between school and work. The program trains staff and encourages community participation at the local level. It also works with central institutions to improve policies, management, standards, teacher training and materials. Over half a million textbooks for fourth and fifth graders have been distributed in the Alexandria Governorate. Information technology systems currently being tested in schools will be expanded to poorer and more rural schools.

In addition, USAID funds projects and scholarships with the American University in Cairo and training in tourism, which is one of Egypt's major sources of income.

U.S. foreign assistance works to improve voluntary family planning, reproductive health and other maternal and child health care services in Egypt. Programs also focus on controlling infectious diseases. At the same time, USAID has begun systematically transferring funding and management responsibilities for these programs to organizations capable of continuing the work on their own.

U.S. foreign assistance is focused on improving the Egyptian judicial system, including criminal courts, legal education and access to justice for women and disadvantaged groups. To strengthen civil society and local governance, USAID assists grassroots organizations that work to link citizens with the government and increase transparency and accountability at the local level. USAID has also expanded journalist training activities to include broadcast media.

Urban air pollution challenges Egypt's economic development, the welfare of its citizens and visitors, and the survival of its ancient treasures. USAID works with businesses and the government on new policies and citizen awareness activities. USAID has helped convert 40,000 vehicles to clean burning fuels, promote conservation of Nile water resources, protect coral reefs and islands in the Red Sea and preserve Egypt's antiquities.

Reliable utility service is critical to attracting investors and boosting national exports. Over the last 25 years, the U.S. and Egypt have worked together on power, telecommunications, water and wastewater services benefiting almost half the population. Now the focus is on improving services and increasing private investment. Towards that end, U.S. assistance helps strengthen utilities' commercial practices and legal and regulatory frameworks.

Egypt's future looks encouraging only if Egyptians can develop relevant skills needed to find employment and generate economic growth, and if they can learn the necessary critical thinking skills to enable them to be responsible citizens and active participants in their communities.

Egypt's Strategy Re-designed

The U.S. foreign assistance program was initiated in Egypt in 1975. After the Camp David Accords, economic assistance funding was earmarked annually at \$815 million until 1998, when funding began to decline at a rate of \$40 million annually. This downward glide path continues today and will stabilize at approximately \$407 million in 2008.

Since the program began, Egypt has made significant progress on many fronts, and our relationship with Egypt has matured as Egypt has taken increased responsibility for initiating economic and political reforms and as its economy has grown. As a result, programs designed around traditional foreign assistance projects may no longer be the most strategic, correct, or straightforward way to support and accelerate reform in Egypt.

It is time to take a bold new approach to the way America structures assistance to Egypt. USAID suggests taking a phased approach to assistance delivery, using a new design approach which moves our joint U.S. Egyptian relationship to one that is less directive, more mature, and that maximizes Egypt's own capabilities. A redesigned program would be more responsive to the issues confronting Egypt today, recognize Egypt's ability to serve as a role model for other Middle Eastern countries, and maximize Egypt's own program management capabilities.

The newly designed program must be targeted and concentrated. One approach might be to focus on the key areas where funds can have greatest impact, i.e., in democratic, economic, and education reform and information technology development. These same strategic areas would also be in keeping with Middle East Partnership Initiative and Freedom Agenda goals for the region.

Egypt's leaders have stated that they want to have their own funds to implement their own ideas. Under any

redesigned plan, USAID's current mix of traditional projects, the large Commodity Import Program, and the conditioned Cash Transfer Program might be expected to graduate rapidly into a different set of delivery mechanisms. Movement toward this end goal might begin immediately, with the termination of the Commodity Import Program.

Conclusion:

Over the years, the USAID/Egypt program has evolved in response both to political and development priorities. Our relationship with Egypt is important, but complex. It involves cooperation on many fronts, and importantly includes military collaboration that is in each nation's interest. Both the United States and Egypt want a more open Egyptian society, but we sometimes disagree on the pace of reforms leading to that goal. The United States wants a prosperous Egypt and we both agree that while there are some encouraging signs, Egypt has not become the economic tiger that we would have hoped. However, Egypt remains a considerable political force in the region and an ally deserving our closest support.

Many internal and external dynamics affect the way Egypt reacts, performs and is perceived in the world. These dynamics also impact the way our assistance has been delivered and will be delivered in the future, as conditions change. As I have stated previously in this testimony, our initial goals in opening the program in the 1970s were to rehabilitate infrastructure damaged by the war with Israel and construct adequate infrastructure to meet the needs of Egypt's population. As those activities were underway, we began to address structural issues in the economy and in social sectors.

As a result of the development of Egypt since then, democratic forces of change that are sweeping the region and, to some degree, the successes of our programs, we are now entering a new phase. When we put together our last USAID country strategy in 2000, our vision, in partnership with Egypt, was to transform our relationship with Egypt to one that was more focused on trade and partnership and less on assistance. The next evolution in our program must be increasingly oriented to better support Egypt's democratic and economic reforms that are taking place and must recognize a more mature relationship. There have been enough significant openings in the last two years to justify such an evolution.

Where do we go from here? In March, when I was in Cairo I spoke with key leaders about how our assistance program could be redesigned to reflect our mutually agreed upon priorities. I found complete agreement among our Egyptian partners regarding the areas in which a redesigned program should be focused, and a great willingness to and appreciation for change. The details of a potential re-design are not complete, and we are arranging to visit our Egyptian counterparts this month for further discussions. As we come closer to defining our approach, we will consult with you on these issues.

I appreciate your taking the time to hear about USAID's program in Egypt and I welcome any questions you may have.